



# Student Loan Repayment

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# A primer on student loan repayment

The overall benefits of a college education are clear. Some studies [estimate](#) bachelor's degree attainment yields a lifetime premium over just a high school diploma, with the premium increasing for advanced degree attainment. College costs have [increased](#) by 9% across public four-year colleges over the last decade, and so too have the number of students and families who need assistance in meeting the price of higher education. These students and families have frequently turned to federal student loans to do so. As of [June 30, 2021](#), 43 million students had federal student loans, up from 32 million in 2009. Prior PNPI primers have covered the types of [federal aid](#) available to students and their families, student [debt](#), and student loan servicing. This primer will cover student loan repayment.

## History and Background on Federal Student Loans

Federal student loans were first offered in the 1950s under the National Defense Education Act, which first authorized the National Defense Student Loan Program. This program ultimately became the Perkins Loan Program. The Higher Education Act of 1965 expanded access to the federal student loan program with the widely available, federally insured, and, later, guaranteed student loans. By 1992, the program was renamed the Federal Family Education Loan (FFEL) Program and was redesigned to encourage private lenders to participate by federally guaranteeing the loans they issued. The same year, Congress authorized the Direct Loan Program, which issues student loans directly through the U.S. Department of Education (ED) with U.S. Treasury funds. This program reduced the federal government's cost of providing student loans by eliminating lender subsidies. The 2010 Student Aid and Fiscal Responsibility Act (SAFRA) discontinued the availability of new FFEL loans and mandated a complete switch to Direct Loans. Since June 30, 2010, all newly issued student loans have been Direct Loans.

## Types of Financial Aid Available

Students have access to a variety of non-loan sources of financial aid through the federal government and from their state and institution. The federal government offers Pell Grants and Federal Supplemental Educational Opportunity Grants (FSEOGs), among other programs.

There are three types of loans a current borrower may hold:

- a federal student loan made by ED under the William D. Ford Direct Loan program (Direct Loan)
- a student loan previously issued under the FFEL program guaranteed by the federal government (FFEL loans); and/or
- a private student loan that is issued and serviced by an entity outside of the Direct Loan or FFEL program.

Within the Direct Loan Program, students and their families can have either a Subsidized or Unsubsidized Direct Loan, a Parent PLUS Loan, a Grad PLUS Loan, or a Consolidation Loan.<sup>1</sup> [Consolidation](#) allows borrowers to combine multiple federal student loans into one loan with one monthly payment, typically at a lower monthly payment but over a longer repayment term. FFEL loans are no longer issued, and holders of these loans received them before SAFRA went into effect.

In order to obtain and pay off a Direct Loan, the student and/or their family must complete several steps, beginning with completing the FAFSA, the Free Application for Federal Student Aid. Figure 1 below details the steps in the life of a direct loan.

## Figure 1: Steps in the Life of a Direct Loan

1. Borrower submits completed **FAFSA** and the **Student Aid Report** (including Expected Family Contribution) is generated.
2. Schools listed on the borrower's FAFSA send **financial aid packages**, which may include Direct Loans, to the borrower.
3. Borrower accepts the school's admission offer and financial aid award, including the Direct Loan, by signing the **promissory note**.
4. After the borrower completes **entrance counseling**, the school disburses the Direct Loan. The borrower's loan status is **"In-School"**.
5. Once the borrower leaves school (or drops below half-time enrollment), the borrower's loan status is **"In Grace"**. The borrower has **exit counseling**.
6. Once the grace period ends, the Direct Loan becomes **"In Repayment"**, unless the loan servicer approves a deferment or forbearance.
7. Under the **Standard Repayment Plan**, the borrower will pay back the Direct Loan in 10-year equal installment payments. **Income-Based Repayment** plans offer longer terms and **loan forgiveness** is available to qualified borrowers. During repayment, the borrower will work with an assigned federal loan servicer.
8. If the borrower fails to make payments for 360 days, the borrower is considered **"In Default"** and the Direct Loan is transferred to **debt collection**.

Adapted from the glossary available at <https://studentaid.ed.gov/sa/glossary>

ED refers to the loan's status to determine where a student loan is in the repayment process. Figure 2 details key student loan statuses.

## Figure 2: Definitions of Key Student Loan Statuses

**Default** – Failure to repay a loan according to the terms agreed to in the promissory note. For most federal student loans, borrowers will default if they have not made a payment in more than 270 days. However, FSA generally identifies defaulted loans as those that are 360 days or more past due, because loan servicers have additional time to transfer Direct Loans to FSA's Debt Management & Collections System.

**Deferment** – A postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue on Direct Subsidized Loans, Subsidized Federal Stafford Loans, and Federal Perkins Loans. All other federal student loans that are deferred will continue to accrue interest. The most common type of deferment is for borrowers enrolled in school, but borrowers can also receive deferments if they are experiencing a period of economic hardship or active military duty. Any unpaid interest accrued during the deferment period may be added to the principal balance (capitalized) of the loan(s).

**Delinquent** – A loan is delinquent when loan payments are not received by the due dates. A loan remains delinquent until the borrower makes up the missed payment(s) through payment, deferment, or forbearance.

**Forbearance** – A period during which monthly loan payments are temporarily suspended or reduced. Forbearance may be granted to borrowers willing but unable to make loan payments due to certain types of financial hardships. Also, borrowers applying for an income-based repayment plan are placed on administrative forbearance. During forbearance, principal payments are postponed but interest continues to accrue. Unpaid interest that accrues during the forbearance will be added to the principal balance (capitalized) of loan(s), increasing the total amount owed.

**Grace Period** – The period of time after the borrowers graduate, leave school, or drop below half-time enrollment where they are not required to make payments on certain federal loans. Six months is the standard grace period. Some federal student loans will accrue interest during the grace period, and if the interest is unpaid, it will be added to the principal balance of the loan when the repayment period begins.

**Repayment** – Following the grace period, borrowers pay off the balance of their loans. Borrowers may select one of several pre-defined repayment plans, including a standard 10-year plan or an income-based repayment plan, or negotiate an alternative repayment plan with their loan servicer.

Before beginning repayment, students who have borrowed a subsidized, unsubsidized, or PLUS loan receive exit loan counseling when they graduate, leave school, or drop below half-time enrollment. Exit counseling provides borrowers with pertinent information necessary to make informed decisions regarding both their options and the selection of their repayment plan. When borrowers enter repayment, they are assigned to one of nine federal student loan servicers that ED contracts with to facilitate the payment and collection of federal student loans. Servicers are compensated monthly based on the loan status of individuals in their portfolio. A borrower's loan servicing assignment can affect the consistency of repayment options they receive, influence the repayment plans they choose, and impact the outreach efforts they receive.

## Federal Direct Loan Repayment

Borrowers work with their assigned federal student loan servicers to repay their student loan and any associated interest charges. There are eight plans available to borrowers for repayment of their federal student loans. Borrowers can change their repayment plan at any time to accommodate their current financial situation.

### Repayment Plans

Borrowers can work with their servicer to select one of the following repayment plans. Figure 3 details the loan balance and number of borrowers in each of the repayment plans.

**Standard Repayment Plan:** This is the federal government's default repayment plan. Under the standard repayment plan, a Direct Loan is paid off in equal monthly payments of at least \$50 per month over 10 years. All borrowers and all types of Direct Loans are eligible for this repayment plan. Typically, borrowers pay less in this repayment plan over time, though the monthly payment is often higher than in other plans. For Consolidation Loans, the standard repayment period varies between 10 and 30 years, depending on the total amount of Direct Loans taken out, and on other student loan debt. This repayment plan is typically used by borrowers who want to minimize the accrued interest on their student loans and have a high enough income to make the larger monthly payments, or by borrowers who are defaulted into this plan because they have not made another selection.

**Graduated Repayment Plan:** Borrowers may select the graduated repayment plan for their Direct Loans. Under this plan, monthly payments are lower at first, and then are increased every two years until the loans are fully repaid after 10 years (10 to 30 years for Consolidation Loan holders, depending on the amount borrowed). The amount of the monthly payment varies. The minimum monthly amount will never be less than the amount of accrued interest between payments, and it will not be more than three times the payment on any other repayment plan. All borrowers and all types of Direct Loans are eligible for this repayment plan. Generally, borrowers pay more over time in this plan than in the standard repayment plan. This plan is designed for borrowers who start with low incomes but can reasonably expect their income to increase steadily over time.

**Extended Repayment Plan:** Borrowers who seek a lower monthly payment than under the standard repayment plan can select the extended repayment plan. Under this plan, the Direct Loan is paid off in equal monthly installments, over a period of up to 25 years (depending on the amount borrowed). Borrowers also have the option of selecting a graduated payment amount. Under the extended repayment plan, borrowers will pay more over time than under the standard repayment plan, but less per month. All borrowers and all types of Direct Loan are eligible for this plan, with a few restrictions.<sup>ii</sup> Borrowers must have over \$30,000 in either Direct Loans or FFEL loans. For example, a borrower with \$40,000 in Direct Loans and \$5,000 in FFEL loans can only select this repayment plan for their Direct Loans — amounts do not combine across loan programs. While this repayment plan has lower monthly payments than the standard repayment plan, borrowers tend to pay more over time, due to increased accrued interest.

**Pay As You Earn Repayment Plan (PAYE):** PAYE is an income-driven repayment plan introduced in 2012. PAYE is available to all new Direct Loan holders (except those with Parent PLUS loans). FFEL loan holders (except for those with FFEL loans made to parents, which are ineligible for PAYE) must consolidate their loans into a Direct Consolidation Loan to be eligible for this repayment plan. Additionally, borrowers must have received a Direct Loan on or after October 1, 2011 and had no outstanding balance on a Direct Loan or FFEL loan on or after October 1, 2007. Monthly payments are capped at no more than 10% of the borrower's monthly discretionary income, based on their annual income and family size. Monthly payments must be lower than under the standard repayment plan for borrowers to be eligible for PAYE. Generally, PAYE is utilized by borrowers with a loan debt greater than their discretionary income. Borrowers must apply to ED to use this plan. Once on a PAYE plan, borrowers must recertify their income and family size each year. Because of this, monthly payments may fluctuate on an annual basis. If income reaches a point where monthly discretionary income is more than the monthly payment on the standard repayment plan, the borrower will remain on the PAYE plan, but the monthly payments will be based on the standard repayment rate, not on income (i.e., payments will never exceed what they would have been on the standard plan). Borrowers who do not annually recertify their income will be moved to a standard repayment plan and the accrued interest on their loan will capitalize. Outstanding loan balances on the PAYE plan are forgiven after 20 years of repayment, regardless of whether the borrower took on loans to fund their undergraduate, graduate, or professional education. Loan balances forgiven under the PAYE plan are considered taxable income. Borrowers who seek an income-driven repayment plan with monthly payments lower than the standard plan benefit from PAYE, though this plan is more expensive over time because of the accrued interest over a longer repayment term than the standard repayment plan.

**Revised Pay As You Earn Repayment Plan (REPAYE):** Available as of December 2015, REPAYE is an income-driven repayment plan available to borrowers with all Direct Loans except Parent PLUS loans. FFEL loan holders (except for those with FFEL loans made to parents, who are ineligible for REPAYE) must consolidate their loans into a Direct Consolidation Loan to be eligible for this repayment plan. Borrowers must apply to ED to use REPAYE. Monthly payments are capped at 10% of a borrower's monthly discretionary income, based on their annual income and family size. Borrowers must recertify their income and family size each year. Because of this, monthly payments may fluctuate on an annual basis. For borrowers with loans strictly for undergraduate education, outstanding balances will be forgiven after 20 years of repayment; for borrowers with loans for graduate or professional study, outstanding balances will be forgiven after 25 years of repayment. Forgiven loan balances under REPAYE are considered taxable income. The plan also forgives interest accrual of up to 50% on all loans, and 100% of accrued interest on Subsidized loans for the first three years. Generally, borrowers enrolled in REPAYE will pay more than the standard repayment plan over time. In addition, monthly payments may be higher than payments on a standard 10-year repayment plan, depending on the borrower's income. This plan is ideal for a borrower who seeks an income-driven repayment plan but wants to pay off their loans faster than under PAYE, or who does not qualify for PAYE based on when they borrowed their loans. Individuals who do not recertify their income or family size annually are moved to an alternative repayment plan that will pay the loan in full within 10 years from when the borrower began paying off the loan, or the ending date of the 20-year (or 25-year) REPAYE repayment period, whichever is first, and interest will capitalize.

**Income-Based Repayment Plan (IBR):** As the name implies, IBR is a repayment plan based on a borrower's income. All Direct Loans made to students are eligible for IBR. Under IBR, monthly payments are 10% of discretionary income for borrowers who first received loans after July 1, 2014. Remaining loan balances are forgiven after 20 years of repayment. For borrowers who took out their loans prior to July 1, 2014, monthly payments are 15% of discretionary income and remaining loan balances are forgiven after 25 years of repayment. In either scenario, monthly payments do not exceed what monthly payments would have been under the standard repayment plan. Similar to the PAYE and REPAYE plans, borrowers must recertify their annual income and family size on an annual basis. As a result, monthly payments may fluctuate year to year.

If income reaches a point where the monthly payment is more than the monthly payment on the standard repayment plan, the borrower will remain on the IBR plan, but monthly payments will be based on the standard repayment rate, rather than income. If a borrower fails to recertify their income and family size annually, their repayment plan automatically changes to the standard repayment plan and accrued interest capitalizes. Forgiven loan balances under IBR are considered taxable income. IBR is beneficial to borrowers who have high debt relative to their income.

**Income-Contingent Repayment Plan (ICR):** Available to Direct Loan borrowers since 1994, ICR is the only income-driven repayment plan available to Parent PLUS loan borrowers (after they fold their loans into a Direct Consolidation Loan). Under ICR, monthly payments are the lesser of either 20% of discretionary income or the monthly rate on a standard repayment plan with a 12-year term, adjusted on income. Borrowers make payments on their loans for 25 years with ICR, and any remaining balance is forgiven after 25 years. Borrowers may be required to pay income tax on any forgiven loan balances. Borrowers must recertify their income and family size each year. Because of this, monthly payments may fluctuate on an annual basis. Unlike PAYE and IBR, monthly payments under ICR can exceed the monthly payment on a standard repayment plan. For that reason, borrowers may pay more over time on ICR than under a standard repayment plan. If borrowers do not recertify their income or family size annually, they are automatically moved to a 10-year standard repayment plan, based on the amount owed at the beginning of their repayment period. As the only income-driven repayment plan for Parent PLUS borrowers, ICR is an ideal repayment plan for low-income parent borrowers seeking an income-driven repayment plan.

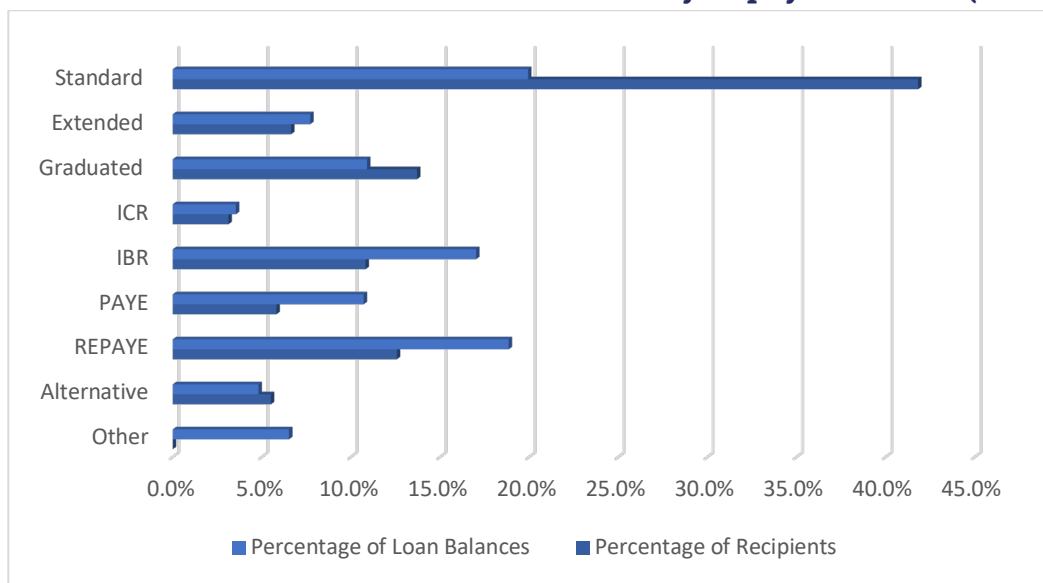
**Income-Sensitive Repayment Plan (ISR):** ISR is a temporary repayment plan only available to FFEL borrowers, including FFEL PLUS and FFEL Consolidation Loans; Direct Loan holders are ineligible for this repayment plan. FFEL borrowers who need relief on their loans may apply for ISR in which monthly payments are temporarily reduced for 12 months. FFEL borrowers work with their lender to determine an amount, generally between 4% and 25%, of their discretionary income that is greater than the monthly accrued interest on their loans. These payments are made for one year, and then the borrower must reapply for another year of ISR if needed. FFEL borrowers may only use ISR for five years. Once a borrower is off ISR, they are returned to a standard ten-year repayment plan. ISR does not extend the repayment period, so while monthly payments may temporarily be lowered, eventually monthly payments will grow to cover the full principal. Borrowers who use ISR will typically pay more than borrowers strictly on a standard repayment plan, due to increased accrued interest after a period of smaller monthly payments. Borrowers with FFEL loans facing temporary financial hardship may benefit from ISR.

*While many observers use “income-based repayment” and “income-driven repayment” interchangeably, there is a key distinction between the two. “Income-based repayment” is one of the plans under the “income-driven repayment” umbrella. “Income-driven repayment” is the umbrella term used to refer to any of the five repayment plans (IBR, ICR, ISR, PAYE, REPAYE) that use a borrower’s income to determine monthly payments.*



**Alternative Repayment Plans:** All loan servicers are required to offer alternative repayment plans to borrowers if they can demonstrate that none of the existing repayment plans can accommodate their financial situation, although borrowers cannot initially select this repayment plan. These plans are only offered in exceptional circumstances, and there is no set definition of what constitutes an exceptional circumstance. Parent PLUS borrowers often enter alternative repayment plans. Borrowers with high levels of medical or private student loan debt, which are not factored into income-driven repayment plan monthly payments, may utilize alternative repayment plans. Servicers may also place borrowers who successfully rehabilitated their loan into an alternative repayment plan as they determine the most appropriate income-driven repayment plan to place the borrower in. These plans are or tend to be very individualized to the borrower and their circumstances.

**Figure 3: Balance and Number of Direct Loan Borrowers by Repayment Plan (3rd Quarter, 2021)**



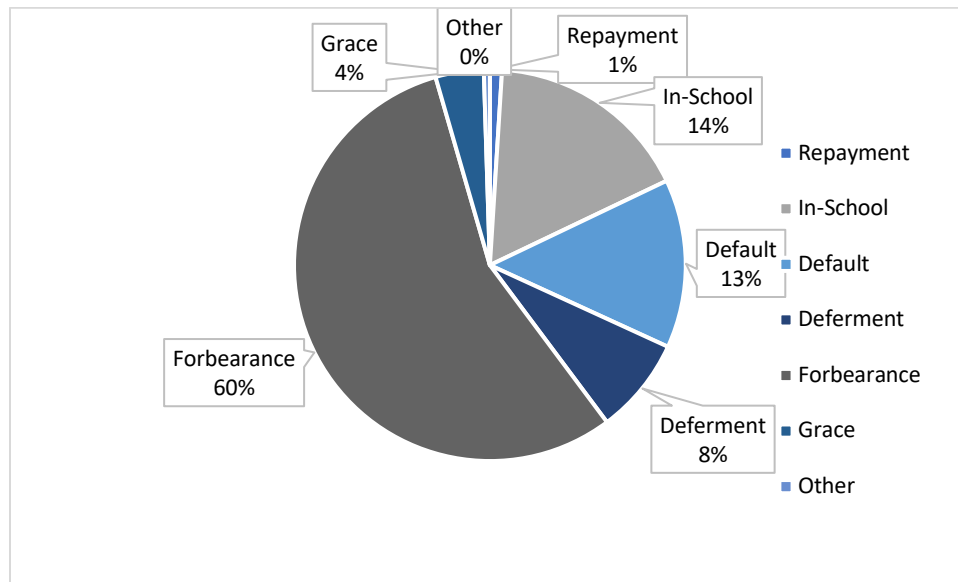
Adapted from the Federal Student Loan Portfolio available [here](#).

## Beginning Repayment

Borrowers are not required to make monthly payments on their student loans when they are enrolled at least half-time at their institution. A borrower does not wait until the completion of their credential to begin repaying their loan.

Certain borrowers who drop below half-time enrollment or leave their institution, whether they have completed a credential or not, are placed into a grace period before beginning repayment. The standard grace period allows borrowers to select the best repayment plan for their situation with their loan servicer and gain some financial stability. The standard grace period lasts six months. Parent PLUS borrowers are not eligible to receive a grace period before beginning repayment<sup>iii</sup>. Following the grace period, borrowers go into repayment status and are required to make monthly payments on their student loans. Figure 4 highlights the repayment status of all Direct Loans.

**Figure 4: Direct Loan Portfolio by Loan Status (3rd Quarter, 2021)**



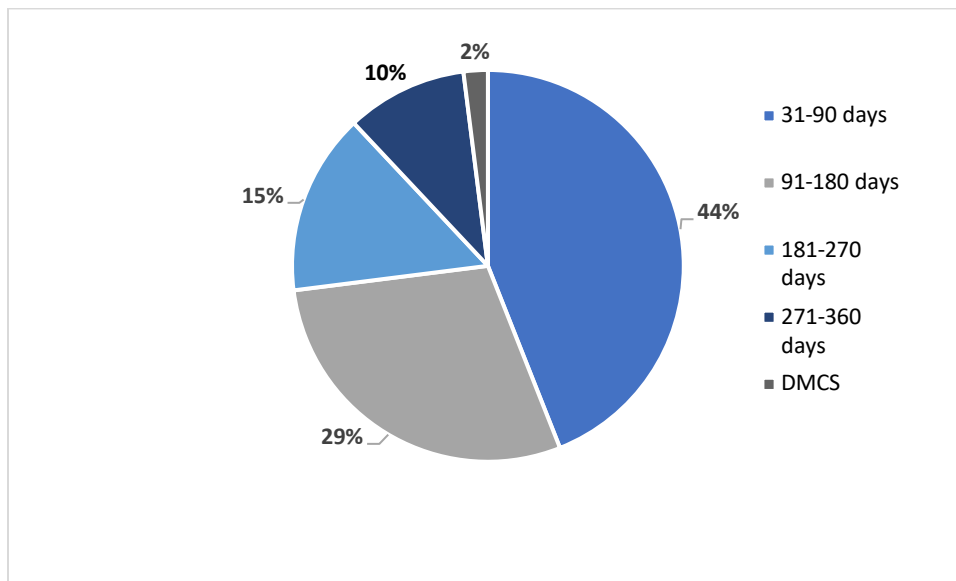
Adapted from the Federal Student Loan Portfolio available [here](#).

All Direct Loan borrowers having difficulty with repayment are eligible for certain protections, such as deferment and forbearance. Borrowers facing financial hardships in which they are willing to make payments on their loans, but unable to make their full payments, are eligible for forbearance. When a loan is in forbearance, a borrower is only able to make payments on interest; principal payments are prohibited. Borrowers switching between a standard plan and an income-driven repayment plan are placed on administrative forbearance during the switch between repayment plans, which may take several weeks to complete.

In response to the COVID-19 pandemic, Congress and the Department of Education placed Direct Loan borrowers and defaulted FFEL accounts into administrative forbearance, the COVID-19 forbearance. Accounts in this forbearance are not accruing interest, and borrowers can defer payments through September 30, 2021. The forbearance counts towards Public Service Loan Forgiveness, as well as income-driven repayment forgiveness for qualified borrowers, two programs to be discussed later in this primer. Additionally, collections on defaulted accounts have stopped during this time frame.

When borrowers do not make on-time payments according to the terms of their promissory note, their loan is considered delinquent. The student loan will remain delinquent until the missed payment is made, or until the borrower enters deferment or forbearance. Once a loan becomes 60 days delinquent, federal law requires lenders to report the delinquency to credit monitoring agencies. See Figure 5 for a breakdown of delinquency status. Data from prior to the implementation of the COVID-19 administrative forbearance is shown to illustrate typical patterns of Direct Loan delinquency.

**Figure 5: Direct Loan Portfolio by Delinquency Status (Q2, 2020)**

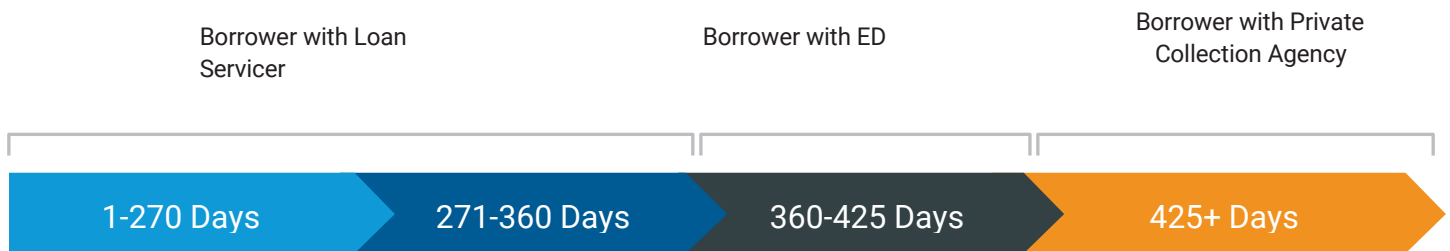


Adapted from the Federal Student Loan Portfolio available [here](#). Pre-pandemic data provided to illustrate typical delinquency status patterns.

If a borrower fails to repay their loan outside of deferment or forbearance for 270 days, the borrower defaults on their loan. When a borrower [defaults](#) on Direct Loans, the federal government has the ability to garnish the borrowers' wages, withhold or reduce Social Security benefits, or deem the borrower ineligible for further student aid. Direct Loans, like private education loans and FFEL loans, are not generally dischargeable through bankruptcy. The guarantor of the loan, the institution that granted the loan, and the federal government [have additional tools](#) at their disposal to recover the owed funds, beyond the aforementioned government powers. These entities may report the default to consumer reporting agencies or file a civil lawsuit. To exit default, borrowers can either repay their loans in full or consolidate or rehabilitate their loans through their loan servicer. Using 2012 data, the Department of the Treasury [found](#) that 70% of defaulted borrowers would have been eligible for lower monthly payments under an income-driven repayment plan. Institutions have a keen interest in the default rates of their students. Institutions whose [cohort default rate](#) exceeds a certain threshold lose access to federal student aid. The cohort default rate is the percentage of students attending an institution who default on their student loans within three years of beginning repayment.

For the first 90 days after a borrower defaults, the loan servicer retains the loan and attempts to collect on it. If they are unable to do so, the loan servicer transfers the defaulted loan to ED. ED attempts to collect on the loan for 65 days. At 425 days delinquent, ED transfers the defaulted loan to a Private Collection Agency (PCA). ED contracts with 11 PCAs to recover defaulted loans.

## Figure 6: Timeline of Default



Source: Pew Charitable Trusts

A borrower can be delinquent without defaulting on their loan. When a loan is delinquent for less than 270 days, the delinquent account may be reported to a crediting agency, much in the same way that a late credit card payment is reported. Borrowers with delinquent accounts remain eligible to receive additional federal student loans. Once accounts are paid, the borrower returns to active repayment status. It is only once an account is 270 or more days delinquent that borrowers begin facing further repercussions. A defaulted account reported to a credit monitoring agency remains on a borrower's credit report for up to seven years. A defaulted loan is removed from the borrower's credit report if the loan is successfully rehabilitated. Defaulting on student loans harms a borrower's credit score and can adversely affect their ability to secure a private loan (e.g., a car loan or a mortgage). Many borrowers who default eventually return their loan to good standing, but the repercussions remain.

Individuals employed by government entities or not-for-profit organizations may be able to receive loan forgiveness under the [Public Service Loan Forgiveness \(PSLF\) program](#). Under PSLF, a borrower's remaining balance on Direct Loans is forgiven after 120 qualifying monthly payments while working for a qualified employer. The qualifying monthly payments do not need to be consecutive. In order to qualify for PSLF, a borrower must meet four basic conditions. First, the borrower must work full-time for an approved government entity or not-for-profit organization.<sup>iv</sup> The borrower must have Direct Loans. The borrower must be enrolled in an income-driven repayment plan (if a borrower remains on a 10-year standard repayment plan for the duration, there would be no loan balance to forgive, though they could be enrolled in standard repayment for some of the 10 year period). Lastly, the borrower must make 120 qualifying monthly payments under these conditions. Qualifying payments cannot be made when the borrower is in school, in their grace period, or in deferment or forbearance, with the exception of the COVID-19 administrative forbearance. Borrowers are encouraged to recertify their employer regularly to verify payments count towards in PSLF.

**In October 2021, the Department of Education temporarily changed PSLF eligibility requirements. Under these temporary rules, any prior payment, whether the loan was paid on time or in full and regardless of loan type and repayment plan, will count as a qualifying payment. Direct Loan holders and those who consolidate into a Direct Loan by October 31, 2022, are eligible for these payments to count. Full-time employment with a qualified employer remains a program requirement. Parent PLUS borrowers are ineligible for these temporary program requirements.**

In 2020, the Department unveiled the [PSLF Help Tool](#) 2.0 to help borrowers determine which documents they must submit to enroll and whether their employer qualifies them for PSLF. While borrowers are still required to physically print the resulting document for their employer to sign, eventually both employee and employer will be able to sign the verification document electronically through the Help Tool. This tool also allows borrowers to keep track of how many qualifying payments they have made toward loan forgiveness. The counter updates each time the borrower submits an employment certification form that can be confirmed.

If they do not, they will be required to complete the proper employee certification forms for each qualifying employer at the time they apply for loan forgiveness, which could be several years after they have left jobs. Borrowers must annually recertify their income to remain on an income-driven repayment plan. After a borrower has made 120 qualifying payments, they must submit a PSLF application through the Help Tool for the balance of their loans to be forgiven. Forgiven loan balances under PSLF are not considered taxable income by the IRS.

The first borrowers eligible for loan forgiveness under PSLF applied for loan forgiveness in the fall of 2017. Nearly 99% of applications received by September 2018 were rejected. [Data](#) shared by ED in 2019 demonstrated that over 80% of the applicants who were denied were so because they had not held a loan for at least 10 years, the minimum period to qualify for PSLF. Other applications were rejected because the borrower did not meet basic program requirements, such as having Direct Loans, working for a qualified employer, or having made 120 qualifying payments.

In 2018, Congress passed the Consolidated Appropriations Act, which temporarily expanded the conditions under which borrowers may be eligible for loan forgiveness under PSLF. The loan forgiveness program created under this law is referred to as [Temporary Expanded Public Service Loan Forgiveness \(TEPSLF\)](#). TEPSLF allows borrowers whose PSLF applications were denied only because some or all of their monthly payments were not made under a qualifying repayment plan to receive loan forgiveness, as long as the payments they did make were under certain other plans (Graduated, Extended, or Consolidation) and, 12 months prior to applying, were at least as much as they would have been under a qualifying repayment plan. Borrowers whose PSLF applications were rejected for a reason other than their repayment plan are not eligible for TEPSLF. Loan balances forgiven under TEPSLF are not considered taxable income by the IRS. To apply for TEPSLF, borrowers must submit a forgiveness form through the Help Tool.

Another federal loan forgiveness program for borrowers is the [Teacher Loan Forgiveness Program](#). Teachers who work in a low-income school or other education service agency for five consecutive years, among other conditions, are eligible to receive up to \$17,500 in loan forgiveness on their Direct Loans or FFEL loans. PLUS and Perkins loan holders are ineligible for this program. The actual loan forgiveness amount is based on subject taught. Eligible teachers may qualify for both the Teacher Loan Forgiveness Program and PSLF, although payments made under one program do not count toward the other. Therefore, a qualifying teacher would need to make qualifying payments for five years under the Teacher Loan Forgiveness Program and then 120 payments under PSLF. Once the required payments have been made, eligible teachers must submit an application to their loan servicer for teacher loan forgiveness.

## **Demographics of Default**

While data on student debt [exists](#), there is a dearth of data on borrowers who are in repayment. ED [publishes](#) cohort-based data on the types of borrowers who take on loans to fund their education, the balance of those loans, and the sector of institution they attend. There is little demographic information on borrowers in repayment and the repayment plans they choose. However, there is some existing demographic data on default. ED also [publishes](#) cohort-based longitudinal survey data on student loan default and delinquency. The data that does exist paints an incomplete portrait of student loan repayment.

*The median defaulter takes out just [\\$9,600](#), just over half of what the median non-defaulter takes out.*

**Family Income:** Among students who began postsecondary education in 2003–04, 25% of borrowers had an expected family contribution of \$0, yet these borrowers [accounted](#) for 43% of all defaulters. 40% of all defaulters came from families in the lowest quartile of family income. 87% of defaulters from this cohort received a Pell Grant. For students at the higher end of the income spectrum, only 10% of defaulters came from families in the top income quartile (who account for one-fifth of all borrowers).

**Dependency status:** Independent students with dependents are most indebted. These students, 17% of all borrowers, account for [29% of all defaults](#).

**Racial demographics:** White students accounted for 60% of all borrowers from the cohort of students who enrolled in 2003–04, but only 44% of all defaulters. Despite accounting for only 17% of all borrowers, black borrowers accounted for 30% of all defaulters. Hispanic borrowers were 14% of all borrowers from this cohort, but were 18% of all defaulters. Generally, [data](#) show that black borrowers and low-income borrowers borrow more than white peers to receive identical degrees.

**Completion status:** Generally, borrowers with high loan balances are less likely to default on their loans. This is because they are more likely to have completed their credential and/or have borrowed for graduate or professional school. Having completed their credentials, they are more likely to be employed and/or employed in higher income occupations. In these cases, loan repayment is typically manageable. Conversely, borrowers with the lowest loan balances are most likely to default. In many cases, these borrowers left school without completing a credential leaving with debt and little to no means to a higher income (e.g., a credential or a degree). The most recent [data](#) of students who entered college in 2003–04 and took out a federal student loan within 12 years shows that 49% of defaulters dropped out before completing a credential and the median loan balance at time of default for these non-completers was \$9,336. Students who drop out before completing a credential are only 30% of all borrowers.

Borrowers of color are more likely to drop out than white borrowers, which further exacerbates default rates by race. [Nearly 50% of black borrowers](#) who first entered college in 2003–04 and took out federal loans defaulted within 12 years of entry. 65% of black borrowers who dropped out defaulted, compared to 46% of dropouts overall. Of the cohort, 29% of all students defaulted. Even among completers there are racial disparities. 6% of white borrowers with a bachelor's degree defaulted within 12 years of entry, while 23% of black borrowers and 14% of Hispanic borrowers with bachelor's degrees defaulted.

**Sector attended:** Borrowers who attend private for-profit institutions are [most likely to default](#). While only 19% of borrowers first attend a for-profit institution, 38% of all defaulters attended a for-profit institution. Borrowers who attend a private, non-profit four-year institution are least likely to default. These borrowers comprise 17% of all borrowers, but only 11% of defaulters. [Among dropouts](#), the sector of attendance and its intersection with race has even more drastic effects. 75% of black borrowers who dropped out of a for-profit institution default, compared with 50% of white borrowers and 63% of Hispanic borrowers. Even at four-year public institutions, results vary. 64% of black dropouts default and 50% of Hispanic dropouts default, against 39% of white dropouts.

# Current Issues in Repayment

## Restarting Repayment

As mentioned above, Congress and ED placed Direct Loan borrowers and defaulted FFEL accounts into administrative forbearance in response to the COVID-19 pandemic. In this COVID-19 forbearance, accounts are not accruing interest, and borrowers can defer payments through January 31, 2022. Additionally, the forbearance counts toward PSLF and for forgiveness under income-driven repayment plans. Furthermore, ED has ordered collections on defaulted accounts to cease.

Restarting the repayment system will be a massive undertaking. ED data shows that only 500,000 Direct Loan borrowers were in active repayment as of June 30, 2021; the remaining 35.8 million Direct Loan borrowers and 1.1 million defaulted FFEL borrowers will begin repayment after January 31, 2022. Several servicers laid off call center employees during the pandemic, due to a decrease in contacts from borrowers and lower revenues primarily due to a lower negotiated fee for accounts in the COVID-19 forbearance—which now account for the majority of servicer portfolios. These servicers will need to re-hire employees and train new staff in time for the anticipated deluge of questions from borrowers upon the restart of repayment.

Recent surveys have shown that borrowers are concerned about their ability to make full, on-time payments once repayment starts. A June 2021 Pew Charitable Trusts survey found that two-thirds of borrowers would have had difficulty making student loan payments in July. Eighty-five percent of these borrowers said they would have difficulty making payments in six months, and 69% percent report they would have difficulty making payments in 12 months. A June 2021 Student Debt Crisis Network found that 90% of borrowers would have been unable to make full, on-time payments on October 1. Advocates are concerned that high numbers of borrowers will go delinquent or default on their loans upon restarting repayment.

## Next Gen

Given the complexities of the student loan repayment system, ED has sought to revamp the loan servicing process. Currently, ED contracts with eight different loan servicers, most of which use their own systems and websites for interacting with borrowers; there is no uniform loan servicing experience for borrowers due to the number of different servicers and systems. In 2017, ED announced its plans for a Next Generation Financial Services Environment ([Next Gen](#)). Next Gen would [create](#) one uniform FSA-branded platform that contracted servicers use to interact with borrowers. Borrowers will still be assigned to a loan servicer, but borrowers across loan servicers will use a central platform, customer service line, and email for loan servicing-related issues. Because of this, it is possible that borrowers will not realize that ED itself is not servicing their student loan.

As currently envisioned, this central platform would connect with a mobile application that will enable current and prospective borrowers to access the FAFSA and, eventually, their repayment options. The [app](#) is currently available for students and families to submit a 2020–2021 FAFSA. The streamlined process will eventually enable students and their families to complete the FAFSA, receive financial aid, make monthly payments, and apply for loan forgiveness through one portal.

In October 2020, ED released a new procurement for an Interim Servicing Solution (ISS) that would award two five-year servicing contracts, similar to the existing servicer contracts. The ISS would have served as a bridge until ED could complete the Next Gen procurement and debut a new platform. In December 2020, the Consolidated Appropriations Act of 2021 prohibited ED from awarding funding for any contract solicitation for Next Gen and permitted FSA to extend the contracts of existing loan servicers for up to two additional years when they expire at the end of 2021. Following ED's announcement of their intention to extend servicer contracts at the end of 2021, FedLoan Servicing (PHEAA) and Granite State announced they would no longer service federal student loans and did not extend their contracts. Additionally, while Navient signed a contract extension, ED approved the transfer of Navient's federal servicing portfolio to a new company, Maximus. As a result, the Interim Servicing Solution solicitation has been put on pause.

## **PSLF**

As noted above, as borrowers have become eligible for loan forgiveness, several issues with the PSLF program have arisen. When the first borrowers eligible for PSLF were able to begin submitting applications in September 2017 for loan forgiveness, over 99% of applications were [rejected](#). The majority of applications were rejected because the loans had not been in repayment for the required 10-year window; the rejection rate should decrease as these loans ripen for forgiveness under PSLF. Borrowers also noted instances where their loan servicer provided incorrect information regarding PSLF eligibility or delayed transferring loans into qualifying repayment plans or to the Pennsylvania Higher Education Assistance Agency (PHEAA), the sole PSLF servicer. The loan servicers' role in this is particularly important as they are responsible as contractors of ED for initiating and overseeing these processes. Errors or delays by servicers can extend borrower's time to forgiveness, if uncorrected.

The GAO recently [found](#) that ED is not doing enough outreach to borrowers as required by law. The GAO notes that ED has plans to develop a comprehensive PSLF servicing manual, but that no timeline for doing so exists. In addition to creating a PSLF servicing manual, the GAO recommends ED provide additional guidance and instructions to borrowers and the PSLF servicer regarding qualifying employment and qualifying payments. GAO also recommends standardization of information sharing from other loan servicers to the PSLF servicer.

To track PSLF applications and program data, ED releases quarterly [reports](#) on the PSLF program. This data demonstrates that several issues persist. Despite greater awareness of the PSLF program and the introduction of TEPSLF, 98% of PSLF applicants through September 2020 were still being rejected and only 5500 borrowers received loan discharges under the program. Of the rejected applications, 56% were rejected due to an insufficient number of qualifying payments, 25% were rejected due to incomplete information on the application, and 14% were rejected due to ineligible loans. The Department has reported that more than 80% of Direct Loan borrowers who have applied for, and been rejected from, PSLF had not even entered repayment 10 or more years ago, and so could not be eligible at the time of application. Applicants who are rejected may reapply.



# Sources

<sup>i</sup> For more information on types of student aid, please see PNPI's [Federal Student Aid Primer](#).

<sup>ii</sup> Direct Loan borrowers and FFEL borrowers must have had no outstanding balances on a Direct Loan either as of October 7, 1998 or on the date they obtained a Direct Loan, if after October 7, 1998.

<sup>iii</sup> Grad PLUS loans are eligible to receive a grace period before beginning repayment.

<sup>iv</sup> Government organizations at any level (federal, state, local, or tribal), non-profit 501(c) organizations, other non-profit organizations who provide certain public services, full-time AmeriCorps or Peace Corps volunteers are eligible for PSLF. For more information on qualifying employment, visit the Public Loan Forgiveness [page](#) on ED's website.

<sup>v</sup> Once a borrower's employer certification form is submitted and approved as a qualifying employer toward loan forgiveness through PSLF, the borrower's loans are transferred to the Pennsylvania Higher Education Assistance Agency (PHEAA), the sole loan servicer for the program, if the borrower's loans are not already serviced by PHEAA. Nationally, PHEAA conducts its loan servicing as FedLoan Servicing.

<sup>vi</sup> When these surveys were conducted, the pause in repayment extended only until September 30, 2021. In August 2021, the department announced a final extension through January 31, 2022. This explains why the surveys did not ask borrowers about their ability to begin repayments at that time.

<sup>vii</sup> The Pew Charitable Trusts. Student Borrowers Survey (June 30, 2021). Retrieved from: [https://www.pewtrusts.org/-/media/assets/2021/07/pct-student-loans\\_topline-final-clean.pdf](https://www.pewtrusts.org/-/media/assets/2021/07/pct-student-loans_topline-final-clean.pdf)

<sup>ix</sup> Student Debt Crisis Center. Student Debt & COVID-19 Survey Report (June 2021). Retrieved from: <https://studentdebtcrisis.org/student-debt-covid-19-survey/>

<sup>x</sup> For more information on servicing contracts, see the Federal Student Aid Data Center and the Department's Fiscal Year 2022 Budget Request. For additional information on loan servicing, see PNPI's Loan Servicing Primer.

<sup>xi</sup> For more information on servicing contracts, see the Federal Student Aid Data Center and the Department's Fiscal Year 2022 Budget Request.